

Denison Municipal Utilities

Independent Auditor's Report

Financial Statements and
Supplemental Information

Schedule of Findings & Questioned Costs

June 30, 2010 and 2009

MAHONEY & GOTTO COMPANY

Certified Public Accountants

Denison, Iowa

DENISON MUNICIPAL UTILITIES

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DENISON MUNICIPAL UTILITIES

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Martens	Chairman	2012
Brad Nelson	Vice Chairman	2013
Nancy Bradley	Board Member	2016
Dane Dammen	Board Member	2014
Chad Langenfeld	Board Member	2015
Mark Ramthun	General Manager	Indefinite
Renee Vary	Manager-Finance & Customer Information	Indefinite
D. R. Franck	Attorney	Indefinite

Denison Municipal Utilities

MAHONEY & GOTTO COMPANY
Certified Public Accountants

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Denison, IA 51442**

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Denison Municipal Utilities

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2010. These basic financial statements are the responsibility of the management of the Denison Municipal Utilities. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

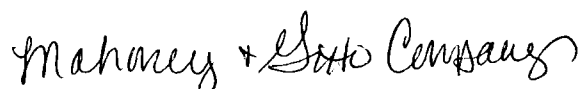
In our opinion, the financial statements, referred to above present fairly, in all material respects, the respective financial position of Denison Municipal Utilities as of June 30, 2010, and the results of its operations and the cash flows of its proprietary fund types and expendable trust funds for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 16, 2010 on our consideration of the Denison Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 38, 42, 46 and 50 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of

measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Denison Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2009 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 8, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.



MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 16, 2010
Denison, Iowa

MANAGEMENT'S DISCUSSION AND ANALYSIS

This section of Denison Municipal Utilities annual report presents an analysis of the Utility's financial performance for the fiscal year ended June 30, 2010. The Utility is organized into four operating divisions. They are the electric utility, water utility, sewer utility, and the joint treatment facility. This discussion and analysis not only points out the highlights of each utility but also reports and discusses highlights in combined form. We encourage readers to consider the information presented here in conjunction with the utility's financial statements and notes to the basic financial statements in order to enhance their understanding of the utility's financial performance.

2010 FINANCIAL HIGHLIGHTS

- The Utilities operating revenues increased \$503,403 or 4.09% from the prior year. Increased gallons of waste treated by the joint treatment facility contributed to this increase. A rate increase implemented in March 2010 for electric usage also contributed to the increase in revenues.
- Interest income decreased by \$143,929 or 41.8% from the prior year. This decrease is a direct result of the Federal Reserve Bank's low interest rate policy.
- Operating expenses increased by \$494,214 or 4.79% from the prior year. The cost of wholesale power has continued to increase causing operating expenses to rise.
- Total assets increased \$367,460 and total liabilities decreased \$429,419, resulting in total net assets increasing \$796,879 or 2.43% from the prior year. Additional funds generated by the rate changes have been set aside in reserve funds to fund future replacement of equipment and infrastructure.

OVERVIEW OF THE FINANCIAL STATEMENTS

This annual report consists of the following three parts: Management's Discussion and Analysis, Financial Statements and Required Supplementary Information. The Financial Statements include notes which explain in detail some of the information included in the Financial Statements.

REQUIRED FINANCIAL STATEMENTS

Denison Municipal Utilities presents its financial statements using the economic resources measurement focus and accrual basis of accounting which is the same measurement focus and basis of accounting employed by private sector business enterprises. The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the Utility's financial activities.

The *Statement of Net Assets* presents information on the Utility's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Utility is improving or deteriorating.

All of the current year's revenues and expenses are accounted for in the *Statement of Revenues, Expenses and Changes in Net Assets*. This statement measures the success of the Utility's operations. It can be used to determine whether the Utility has successfully recovered all its costs through its rates, fees and other revenues. This statement also measures the Utility's profitability and credit worthiness.

The *Statement of Cash Flows* presents the change in the Utility's cash and cash equivalents during the year. This information can assist the user of the report in determining how the Utility financed its activities and how it met its cash requirements.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the Utility's budget for the year, as well as presenting the schedule of funding progress for the retiree health plan.

FINANCIAL ANALYSIS OF THE UTILITY

The Statement of Net Assets includes all of the utility's assets and liabilities and provides information about the nature and amount of investments in resources and the obligations to creditors. This statement provides the basis for evaluating the capital structure and assessing the liquidity and financial flexibility of the utility.

The analysis below focuses on the net assets and changes in net assets of the Utility.

<u>Condensed Statement of Net Assets</u>			
	<u>2010</u>	<u>2009</u>	<u>2008</u>
Current and other assets	\$ 14,367,861	\$ 14,137,880	\$ 13,339,165
Capital Assets	<u>25,303,088</u>	<u>25,165,609</u>	<u>24,879,063</u>
Total Assets	<u>39,670,949</u>	<u>39,303,489</u>	<u>38,218,228</u>
Long-term debt outstanding	4,030,968	4,216,000	4,788,000
Other liabilities	<u>2,018,611</u>	<u>2,262,998</u>	<u>1,660,956</u>
Total Liabilities	<u>6,049,579</u>	<u>6,478,998</u>	<u>6,448,956</u>
Invested in Capital Assets, net of related debt	20,711,477	20,347,765	19,568,394
Restricted net assets	1,171,572	1,149,889	1,285,045
Unrestricted net assets	<u>11,738,321</u>	<u>11,326,837</u>	<u>10,915,833</u>
Total net assets	\$ <u>33,621,370</u>	\$ <u>32,824,491</u>	\$ <u>31,769,272</u>

2010 OPERATING RESULTS

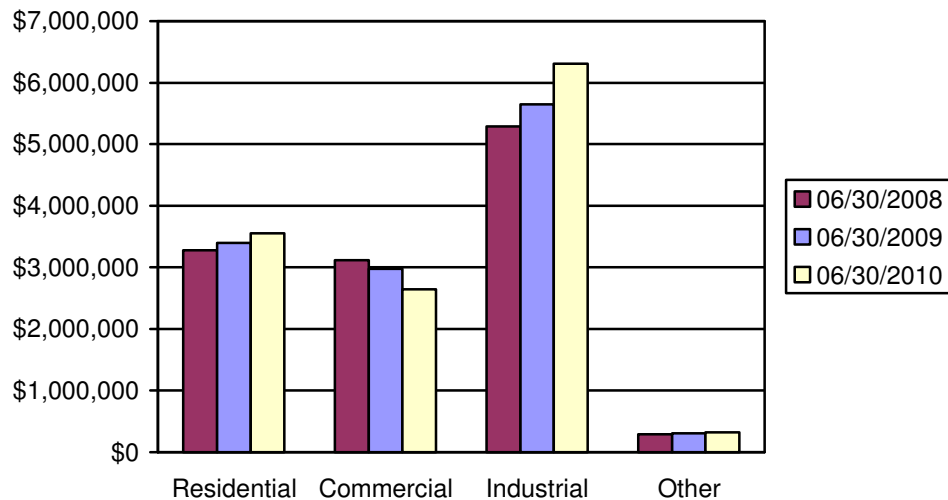
The Statement of Revenues, Expenses and Changes in Net Assets identify the various revenue and expense items which affect the change in net assets.

Condensed Statements of Revenues, Expenses, and Changes in Net Assets

	<u>2010</u>	<u>2009</u>	<u>2008</u>
Program revenues			
Operating revenues	\$12,826,151	\$ 12,322,748	\$ 11,966,200
Miscellaneous	225,812	239,967	205,068
Unrestricted investment earnings	200,804	344,733	463,832
Total revenues	<u>13,252,767</u>	<u>12,907,178</u>	<u>12,635,100</u>
Program expenses			
Operating expenses	10,810,434	10,316,220	9,321,194
Depreciation	1,328,885	1,295,386	1,299,464
Interest on long-term debt	156,236	172,873	191,802
Miscellaneous	160,333	67,480	113,670
Total expenses	<u>12,455,888</u>	<u>11,851,959</u>	<u>10,926,130</u>
Increase (decrease) in net assets	796,879	1,055,219	1,708,970
Unrestricted Net assets July 1	<u>32,824,491</u>	<u>31,769,272</u>	<u>30,060,302</u>
Unrestricted Net assets June 30	<u>\$33,621,370</u>	<u>\$32,824,491</u>	<u>\$31,769,272</u>

The following graph shows a comparison of total operating revenue by customer category for the fiscal years ended June 30, 2010, 2009 and 2008.

Comparison of Total Operating Revenues



Following is a schedule of the number of electric meters and the kilowatts used by customer class for the fiscal years ended June 30, 2010, 2009 and 2008:

Comparison of Electric Meters & Usage by Customer Class

	2010		2009		2008	
	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>	<u>Meters</u>	<u>KWH</u>
Commercial C1	636	23,063,268	554	27,280,359	554	32,559,527
Commercial C1M	16	2,576,431	116	3,387,028	119	3,480,220
Commercial C2M	0	4,399,600	21	6,850,700	21	7,464,800
Residential R1	2,435	17,269,284	1,187	12,570,051	1,185	13,085,967
Residential R2M	253	16,606,368	1,499	21,798,654	1,486	22,011,086
Industrial	43	77,125,050	9	73,316,960	5	68,931,320
Water plant		2,941,370		3,111,140		2,973,990
Sewer plant		4,266,982		4,359,250		4,143,025
City Government		2,873,190		3,019,010		3,090,620
Other DMU uses		<u>597,480</u>		<u>603,620</u>		<u>628,320</u>
Total Meters & KWH Billed	<u>3,383</u>	<u>151,719,023</u>	<u>3,386</u>	<u>156,296,772</u>	<u>3,370</u>	<u>158,368,875</u>

The number of water meters and gallons used by customer class for the fiscal years ended June 30, 2010, 2009 and 2008 is as follows:

Comparison of Water Meters & Usage by Customer Class

	2010		2009		2008	
	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>	<u>Meters</u>	<u>Gals.</u>
Residential	2,256	119,503,000	2,243	121,448,000	2,226	124,685,000
Commercial	391	87,129,000	395	90,075,000	388	95,970,000
West Central Rural Water	4	183,453,000	4	169,036,000	4	170,175,000
Residential Outside City	131	11,583,000	129	10,826,000	129	10,245,000
Commercial Outside City	16	27,732,000	18	31,273,000	17	33,236,000
Industrial	8	396,904,000	8	409,225,000	8	436,647,000
Electric Department		459,000		718,000		966,000
Sewer plant		2,039,000		1,526,000		1,358,000
City Government		5,037,000		5,003,000		5,996,000
Other DMU uses		<u>872,000</u>		<u>866,000</u>		<u>1,092,000</u>
Total Meters & KWH Billed	<u>2,806</u>	<u>834,711,000</u>	<u>2,797</u>	<u>839,996,000</u>	<u>2,772</u>	<u>880,370,000</u>

ANALYSIS BY FUND

The Electric Utility, which accounts for the operation and maintenance of the electric system, ended fiscal year 2010 with a net asset balance of \$13,879,768 compared to the prior year ending net asset balance of \$13,919,608, a decrease of 0.3%. A decrease in interest income and an increase in economic development costs contributed to the decrease in net assets.

The Water Utility, which accounts for the operation and maintenance of the water treatment and distribution system, ended fiscal year 2010 with a \$10,652,833 net asset balance compared to the prior year ending net asset balance of \$10,403,328, an increase of 2.40%. An increase in capital assets and a decrease in the related debt contributed to the increase in net assets.

The Sewer Utility, which accounts for the operation and maintenance of the wastewater treatment and sanitary sewer system, ended fiscal year 2010 with a net asset balance of \$3,218,334 compared to \$3,022,359 for the previous fiscal year, an increase of 6.48%. An increase in amounts invested in capital assets offset by an increase in current liabilities contributed to the increase in net assets.

The Joint Treatment Utility, which accounts for the operation and maintenance of the waste water treatment system to which the major industries in the City of Denison discharge their pretreated waste water, ended the fiscal year 2010 with a net asset balance of \$5,807,435 compared to the prior year ending net asset balance of \$5,479,196, an increase of 6.0%. An increase in the gallons of waste treated and a decrease in wastewater processing costs contributed to the increase in net assets.

CAPITAL ASSETS

The Utilities' capital assets include land, buildings, improvements, service lines, automobiles and equipment, and street lights. A total of \$1,466,364 was invested in new capital assets, after accounting for depreciation, there was an increase of \$137,479 in Capital Assets from June 30, 2009.

LONG-TERM DEBT

As of June 30, 2010, the Utility had \$4.031 million in outstanding debt compared to \$4.216 million as of June 30, 2009. The decrease represents principal payments made during the fiscal year ended June 30, 2010 plus funds advanced for the water meter replacement program financed through the State of Iowa Revolving Loan Fund. The outstanding debt of the water utility consists entirely of revenue bonds, which are secured by future water revenues.

Additional information on the Utility's long-term debt is provided in Note 5 of the financial statements.

BUDGETARY HIGHLIGHTS

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds, except agency funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

The Utility's receipts were \$949,651 less than budgeted. Receipts in the Electric Utility were significantly less than anticipated due to milder weather and due to a delay in a Hazard Mitigation Grant that will be received during fiscal year 2011 rather than 2010.

Total expenditures were \$3,603,039 less than budgeted. A delay in projects at the Water Treatment Plant and a delay in the underground conversion project for the Electric Utility were the primary contributors to this variance.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Various economic factors were considered when establishing the Utilities' budget for fiscal 2010. Anticipated industry expansion and demographic changes are all considered in order to determine capital expenditures and expected revenues. During fiscal year 2011, the Utilities will review all rate structures to determine if any rate changes will be needed. Planned capital additions will be financed

through cash reserves and operating cash flows thereby reducing the assets that bear interest and reducing interest income for the coming fiscal years.

COMMUNITY BENEFITS PROVIDED

As a municipal utility, DMU is able to provide the citizens of Denison with a variety of community benefits through lower rates and various customer programs. Following is a schedule of community benefits provided during the fiscal years ended June 30, 2010 and 2009.

	<u>2010</u>	<u>2009</u>
KWH Billed	151,719,023	156,296,772
Rate difference between Iowa average utility rate and Denison Municipal Utilities	<u>0.0181</u>	<u>0.0185</u>
(1) Calculated total electric savings	\$ 2,746,114	\$ 2,891,490
(2) Transfer to City general fund in lieu of taxes	300,094	254,455
(3) New housing assistance program	6,003	2,570
(4) Water heater rebates	<u>7,385</u>	<u>8,750</u>
Total Community Benefits	<u>\$ 3,059,596</u>	<u>\$ 3,157,265</u>

- (1) The Iowa average utility rate is arrived at by comparing the most recent data available from the US Energy Information Administration on Iowa investor owned utilities.
- (2) Payment of utility bills based upon the costs associated with street and public recreation area lighting are remitted by the city monthly. A cash remittance of the same amount is given to the city as a payment in lieu of taxes.
- (3) Denison Municipal Utilities has agreed to support local housing projects by reimbursing 90% of costs associated with installing electric, water, and sewer connections from main lines to the house or duplex; however, the reimbursement amount is not to exceed \$2,000 per structure. In the cash of multi-family dwellings, in excess of two units, the reimbursement amount is not to exceed \$500 per dwelling unit.
- (4) Denison Municipal Utilities has agreed to support an energy efficient water heater rebate program. All participants in the water heater rebate program are required to be on the load management system.

ADDITIONAL FINANCIAL INFORMATION

This financial report is designed to provide the Utility's rate payers, creditors and other interested parties with a general overview of the Utility's financial operations and financial condition. If you have any questions regarding the information included in this report or wish to request additional financial information, please contact the Denison Municipal Utilities' Manager of Finance and Customer Information at PO Box 518, Denison, IA 51442.

Financial Statements

DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2010	2009
ASSETS		
UTILITY PLANT		
Plant in Service, at cost	\$ 49,702,994	\$ 48,255,900
Less: Accumulated depreciation	24,399,906	23,090,291
Net Utility Plant	<u>\$ 25,303,088</u>	<u>\$ 25,165,609</u>
OTHER ASSETS		
Restricted		
Revenue bond reserve	\$ 1,189,369	\$ 1,156,075
Loan origination fee, net of accumulated amortization	27,357	29,844
Unrestricted		
Note Receivable	750,000	875,000
Equipment replacement investment	697,787	543,856
	<u>\$ 2,664,513</u>	<u>\$ 2,604,775</u>
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 75,906	\$ 77,016
Unrestricted		
Cash	1,792,896	911,605
Deposits and investments	7,228,300	8,330,045
Accounts receivable	906,938	870,971
Unbilled usage	678,747	621,085
Due from other funds	25,226	63,899
Interest receivable	29,031	72,942
Inventory	856,226	481,066
Prepaid insurance	110,078	104,476
Total Current Assets	<u>\$ 11,703,348</u>	<u>\$ 11,533,105</u>
Total Assets	<u><u>\$ 39,670,949</u></u>	<u><u>\$ 39,303,489</u></u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS
June 30, 2010 and 2009

Exhibit A

	BUSINESS-TYPE ACTIVITIES	
	2010	2009
LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 20,711,477	\$ 20,347,765
Restricted net assets	1,171,572	1,149,889
Unrestricted net assets	11,738,321	11,326,837
Total Net Assets	<u>\$ 33,621,370</u>	<u>\$ 32,824,491</u>
LONG-TERM DEBT		
Net of current maturities	<u>\$ 4,030,968</u>	<u>\$ 4,216,000</u>
CURRENT LIABILITIES		
Accounts payable	\$ 955,267	\$ 1,165,613
Due to other funds	25,226	63,899
Accrued vacation and sick leave	303,461	315,399
Other accrued liabilities	37,954	45,385
Payable from restricted assets		
Current maturities of long-term debt	588,000	572,000
Interest payable	34,503	38,052
Consumers' deposits	74,200	62,650
Total Current Liabilities	<u>\$ 2,018,611</u>	<u>\$ 2,262,998</u>
Total Liabilities and Net Assets	<u><u>\$ 39,670,949</u></u>	<u><u>\$ 39,303,489</u></u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF ACTIVITIES
Years Ended June 30, 2010 and 2009

Exhibit B

Functions/Programs	Expenses	Charges for service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue 2010	2009
Business-type activities:						
Electric Utility	\$ 8,460,308	8,295,673	0	0	(164,635)	(129,878)
Water Utility	1,932,691	2,211,864	0	0	279,173	359,990
Sewer Utility	817,105	1,051,855	0	0	234,750	259,809
Joint Treatment	929,215	1,266,759	0	0	337,544	221,221
Interest on long-term debt	156,236	0	0	0	(156,236)	(172,873)
Total Business-type activities	\$ 12,295,555	12,826,151	0	0	530,596	538,269
General Revenues:						
Unrestricted investment income					\$ 200,804	344,733
Miscellaneous					65,479	172,217
Change in net assets					796,879	1,055,219
Net assets, beginning of year					32,824,491	31,769,272
Net assets, end of year					<u>\$ 33,621,370</u>	<u>32,824,491</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2010 and 2009

Exhibit C

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2010	Total 2009
ASSETS						
UTILITY PLANT						
Plant in Service	\$ 18,729,766	17,572,170	4,717,408	8,683,650	49,702,994	48,255,900
Less: Accumulated depreciation	10,388,512	8,137,241	2,724,230	3,149,923	24,399,906	23,090,291
Net Utility Plant	<u>\$ 8,341,254</u>	<u>9,434,929</u>	<u>1,993,178</u>	<u>5,533,727</u>	<u>25,303,088</u>	<u>25,165,609</u>
OTHER ASSETS						
Restricted						
Revenue bond reserve-restricted	\$ 0	1,189,369	0	0	1,189,369	1,156,075
Loan origination fee, net of accumulated amortization (Note 4)	0	27,357	0	0	27,357	29,844
Unrestricted						
Note receivable - Joint Treatment Fund	750,000	0	0	0	750,000	875,000
Equipment replacement investment	0	0	0	697,787	697,787	543,856
Total Other Assets	<u>\$ 750,000</u>	<u>1,216,726</u>	<u>0</u>	<u>697,787</u>	<u>2,664,513</u>	<u>2,604,775</u>
CURRENT ASSETS						
Restricted						
Consumers' deposit fund	\$ 75,906	0	0	0	75,906	77,016
Unrestricted						
Cash	850,515	552,495	165,718	224,168	1,792,896	911,605
Deposits and investments	3,454,386	2,760,039	1,013,875	0	7,228,300	8,330,045
Accounts receivable	481,647	189,378	120,764	115,149	906,938	870,971
Unbilled usage	492,053	112,483	74,211	0	678,747	621,085
Due from other funds	4,807	7,967	11,737	715	25,226	63,899
Interest receivable	21,883	3,834	3,314	0	29,031	72,942
Inventory	471,684	384,542	0	0	856,226	481,066
Prepaid insurance	43,884	38,568	9,995	17,631	110,078	104,476
Total Current Assets	<u>\$ 5,896,765</u>	<u>4,049,306</u>	<u>1,399,614</u>	<u>357,663</u>	<u>11,703,348</u>	<u>11,533,105</u>
Total Assets	<u>\$ 14,988,019</u>	<u>14,700,961</u>	<u>3,392,792</u>	<u>6,589,177</u>	<u>39,670,949</u>	<u>39,303,489</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF NET ASSETS - PROPRIETARY FUNDS
June 30, 2010 and 2009

Exhibit C

LIABILITIES AND NET ASSETS	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2010	Total 2009
NET ASSETS						
Invested in Capital Assets, net of related debt	\$ 8,341,254	5,593,318	1,993,178	4,783,727	20,711,477	20,347,765
Restricted net assets	1,706	1,169,866	-	-	1,171,572	1,149,889
Unrestricted net assets	5,536,808	3,889,649	1,288,156	1,023,708	11,738,321	11,326,837
Total Net Assets	<u>\$ 13,879,768</u>	<u>10,652,833</u>	<u>3,281,334</u>	<u>5,807,435</u>	<u>33,621,370</u>	<u>32,824,491</u>
LONG-TERM DEBT -						
Net of current maturities (Note 5)	<u>\$ 0</u>	<u>3,405,968</u>	<u>0</u>	<u>625,000</u>	<u>4,030,968</u>	<u>4,216,000</u>
CURRENT LIABILITIES						
Accounts payable	\$ 838,048	61,540	42,220	13,459	955,267	1,165,613
Due to other funds	17,774	3,650	2,693	1,109	25,226	63,899
Accrued vacation and sick leave	159,817	82,285	61,359	0	303,461	315,399
Other accrued liabilities	18,412	12,182	5,186	2,174	37,954	45,385
Payable from restricted assets						
Current maturities of long-term debt (Note 5)	0	463,000	0	125,000	588,000	572,000
Interest payable	0	19,503	0	15,000	34,503	38,052
Consumers' deposits	74,200	0	0	0	74,200	62,650
Total Current Liabilities	<u>\$ 1,108,251</u>	<u>642,160</u>	<u>111,458</u>	<u>156,742</u>	<u>2,018,611</u>	<u>2,262,998</u>
Total Liabilities and Net Assets	<u>\$ 14,988,019</u>	<u>14,700,961</u>	<u>3,392,792</u>	<u>6,589,177</u>	<u>39,670,949</u>	<u>39,303,489</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS - PROPRIETARY FUNDS
Years Ended June 30, 2010 and 2009

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2010	Total 2009
OPERATING REVENUES						
Sales to consumers	\$ 8,263,170	2,211,864	1,051,855	1,266,759	12,793,648	12,275,152
Other operating revenues	32,503	0	0	0	32,503	47,596
Total operating revenues	<u>\$ 8,295,673</u>	<u>2,211,864</u>	<u>1,051,855</u>	<u>1,266,759</u>	<u>12,826,151</u>	<u>12,322,748</u>
OPERATING EXPENSES						
Cost of Power	\$ 6,720,499	0	0	0	6,720,499	6,217,535
Plant & main maintenance	84,841	0	227,978	0	312,819	335,843
Power & pumping	0	209,706	0	0	209,706	173,749
Distribution expense	395,345	205,379	0	0	600,724	659,899
Purification	0	489,341	0	0	489,341	476,459
Waste water processing expense	0	0	0	516,501	516,501	556,262
Joint treatment costs	0	0	269,566	0	269,566	285,809
Consumer accounting & collection	107,485	85,436	59,096	0	252,017	210,484
Administrative & general	421,099	217,658	104,483	156,379	899,619	906,208
Insurance	205,083	152,794	52,530	64,833	475,240	423,814
Transportation	32,999	10,839	9,644	10,920	64,402	70,158
Total operating expense excluding depreciation	<u>\$ 7,967,351</u>	<u>1,371,153</u>	<u>723,297</u>	<u>748,633</u>	<u>10,810,434</u>	<u>10,316,220</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 328,322	840,711	328,558	518,126	2,015,717	2,006,528
DEPRECIATION	<u>492,957</u>	<u>561,538</u>	<u>93,808</u>	<u>180,582</u>	<u>1,328,885</u>	<u>1,295,386</u>
OPERATING INCOME	\$ (164,635)	279,173	234,750	337,544	686,832	711,142
NONOPERATING REVENUES (EXPENSES)						
Miscellaneous	\$ 178,523	19,786	3,460	17,633	219,402	239,697
Hazard Mitigation grant	6,410	0	0	0	6,410	0
Interest income	100,195	74,282	20,765	5,562	200,804	344,733
Interest expense	0	(123,736)	0	(32,500)	(156,236)	(172,873)
Economic development costs (Note 9)	(160,333)	0	0	0	(160,333)	(67,480)
Total nonoperating revenues (expenses)	<u>\$ 124,795</u>	<u>(29,668)</u>	<u>24,225</u>	<u>(9,305)</u>	<u>110,047</u>	<u>344,077</u>
NET INCOME (LOSS)	\$ (39,840)	249,505	258,975	328,239	796,879	1,055,219
NET ASSETS, BEGINNING OF YEAR	13,919,608	10,403,328	3,022,359	5,479,196	32,824,491	31,769,272
NET ASSETS, END OF YEAR	<u>\$ 13,879,768</u>	<u>10,652,833</u>	<u>3,281,334</u>	<u>5,807,435</u>	<u>33,621,370</u>	<u>32,824,491</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF CASH FLOWS - PROPRIETARY FUNDS
Years Ended June 30, 2010 and 2009

Exhibit E

	Electric Utility	Water Utility	Sewer Utility	Joint Treatment	Total 2010	Total 2009
CASH FLOWS FROM OPERATING ACTIVITIES						
Net income (loss)	\$ (39,840)	249,505	258,975	328,239	796,879	1,055,219
Adjustments to reconcile net income (loss) to net cash provided by operating activities:						
Depreciation	492,957	561,538	93,808	180,582	1,328,885	1,295,386
Amortization of origination fees	0	2,487	0	0	2,487	2,487
Changes in assets and liabilities						
(Increase) decrease in consumers' deposit fund	1,110	0	0	0	1,110	(15,203)
(Increase) decrease in trade receivables	(5,483)	(20,575)	8,209	(18,118)	(35,967)	113,518
(Increase) decrease in unbilled usage	(68,888)	9,588	1,638	0	(57,662)	(50,435)
(Increase) decrease in inventories	(72,125)	(303,035)	0	0	(375,160)	(28,509)
(Increase) decrease in prepaid expenses	(2,467)	(1,812)	(493)	(830)	(5,602)	(13,194)
(Increase) decrease in other current assets	35,602	27,891	18,960	131	82,584	(33,529)
Increase (decrease) in accounts payable and accrued liabilities	(264,658)	(2,810)	18,124	(22,593)	(271,937)	578,081
Increase (decrease) in customer deposits	11,550	0	0	0	11,550	6,961
Net cash provided by (used in) operating activities	<u>87,758</u>	<u>522,777</u>	<u>399,221</u>	<u>467,411</u>	<u>1,477,167</u>	<u>2,910,782</u>
CASH FLOWS FROM INVESTING ACTIVITIES						
Proceeds from sale/maturities of securities	5,818,779	4,390,666	838,359	0	11,047,804	7,960,361
Purchase of investment securities	(5,024,998)	(4,093,758)	(860,597)	(153,931)	(10,133,284)	(9,079,864)
Purchase of property and equipment	(705,927)	(308,045)	(339,042)	(113,350)	(1,466,364)	(1,581,932)
Interfund loan to Joint Treatment	125,000	0	0	0	125,000	125,000
Net cash provided by (used in) investing activities	<u>212,854</u>	<u>(11,137)</u>	<u>(361,280)</u>	<u>(267,281)</u>	<u>(426,844)</u>	<u>(2,576,435)</u>
CASH FLOWS FROM FINANCING ACTIVITIES						
Proceeds from long-term borrowing	0	402,968	0	0	402,968	0
Principal payments on long-term borrowings	0	(447,000)	0	(125,000)	(572,000)	(555,000)
Net cash provided by (used in) financing activities	<u>0</u>	<u>(44,032)</u>	<u>0</u>	<u>(125,000)</u>	<u>(169,032)</u>	<u>(555,000)</u>
Net increase (decrease) in cash and cash equivalents	300,612	467,608	37,941	75,130	881,291	(220,653)
Cash and cash equivalents:						
Beginning	549,903	84,887	127,777	149,038	911,605	1,132,258
Ending	<u>\$ 850,515</u>	<u>552,495</u>	<u>165,718</u>	<u>224,168</u>	<u>1,792,896</u>	<u>911,605</u>

See notes to financial statements.

DENISON MUNICIPAL UTILITIES
STATEMENTS OF FIDUCIARY ASSETS AND LIABILITIES
AGENCY FUNDS
June 30, 2010 and 2009

Exhibit F

	<u>2010</u>	<u>2009</u>
ASSETS		
OTHER ASSETS		
Restricted		
Deferred compensation	\$ 217,804	\$ 182,679
CURRENT ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
Total Assets	\$ <u><u>217,804</u></u>	\$ <u><u>182,679</u></u>
LIABILITIES AND NET ASSETS		
NET ASSETS		
None	\$ <u>0</u>	\$ <u>0</u>
CURRENT LIABILITIES		
Payable from restricted assets		
Deferred compensation	\$ <u>217,804</u>	<u>182,679</u>
Total Current Liabilities	\$ <u>217,804</u>	\$ <u>182,679</u>
Total Liabilities and Net Assets	\$ <u><u>217,804</u></u>	\$ <u><u>182,679</u></u>

DENISON MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2010

Note 1 – Summary of Significant Accounting Policies

The Denison Municipal Utilities is governed by a Board of Trustees that are appointed by the Mayor of Denison, Iowa and approved by the City Council. Services provided are electric, water, sewer and joint treatment for industrial wastes. A communication utility was established by referendum in November, 1997. To date, it has no assets and no customers.

The financial statements of Denison Municipal Utilities have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to enterprise funds of governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The significant accounting principles and policies utilized by the utilities are described below:

Reporting entity

Criteria specified by the Governmental Accounting Standards Board have been applied in determining the scope of the reporting entity for financial reporting purposes. Specifically, those offices and activities over which the Board of Trustees exercises oversight responsibility are included in these financial statements. Manifestations of oversight responsibility over an entity include: (1) financial interdependency, (2) selection of governing authority, (3) designation of management, (4) ability to significantly influence operations and (5) accountability for fiscal matters.

In accordance with GASB 14, the Denison Municipal Utilities has been identified as a component unit of the City of Denison, due primarily to the fact that the City of Denison selects the Board of Trustees.

Basis of Presentation

The accounts of Denison Municipal Utilities are organized on the basis of enterprise funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by a separate set of self-balancing accounts which comprise its assets, liabilities, net assets, revenues and expenses. The various funds are Electric, Water, Sewer and Joint Treatment.

The Statement of Net Assets displays the Utility's assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

Invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Measurement Focus and Basis of Accounting

The financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recognized when a liability is incurred, regardless of the timing of related cash flows.

Denison Municipal Utilities applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Denison Municipal Utilities distinguishes operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with Denison Municipal Utilities' principal ongoing operations. The principal operating revenues of the Utility are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Assets, Liabilities and Net Assets

The following accounting policies are followed in preparing the Statement of Net Assets:

Cash, Investments and Cash Equivalents - The Utilities considers all short-term investments that are highly liquid to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash, and at the day of purchase, they have a maturity date no longer than three months. There were no cash equivalents as of June 30, 2010. Investments consist of non-negotiable certificates of deposit which are stated at cost.

Restricted Assets - Funds set aside for payment of customer deposits are classified as restricted. Also, funds set aside for payment of bond principal and interest are classified as restricted. Funds classified as restricted are not available to pay expenses other than those expenses for which the fund is restricted in accordance with Utility policy.

Receivables, Unbilled Usage and Credit Policies - Accounts receivable are uncollateralized customer obligations due under normal terms requiring payment twenty days after the billing date. Unpaid accounts receivable are considered delinquent and are assessed a penalty. Payments of accounts receivable are allocated to the specific bills identified by the customer, or if unspecified, are applied to the earliest unpaid bill.

Accounts receivable are stated at the amount billed to the customer plus any unpaid penalties and are recorded in the Proprietary Funds at the time the service is billed. Management reviews all accounts receivable balances that are delinquent and charges those amounts to expense that are deemed to be uncollectible.

Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Inventories - Materials and supplies inventory are valued at average cost.

Property, Plant & Equipment - The electric plant was estimated at replacement cost at August 31, 1969 and the Water Fund fixed assets were valued by utility employees at March 31, 1951. The employees used estimated historical costs because original historical cost was not available and the difference between such amounts was believed to be immaterial. All subsequent additions are valued at historical cost. Where additions are made by Utility personnel, the direct cost of materials and labor are capitalized.

Major outlays for utility plant are capitalized as projects are constructed. Interest incurred during the construction phase is reflected in the capitalized value of the utility plant constructed, net of interest earned on the invested proceeds over the same period. There were no qualifying assets acquired during the year ended June 30, 2010.

Capital assets in service are depreciated using the straight-line method over the following useful lives:

Plant	20-40 years
Distribution & Collection	15-40 years
Machinery & Equipment	5-10 years
General Buildings	30-40 years
Transportation Equipment	5-10 years

Compensated Absences - The Utility allows employees to accumulate a maximum of 25 working days of vacation leave. An employee may carry forward a maximum of ten days of each year's earned vacation. Any vacation leave in excess of these two limits will be lost. Upon separation from the Utility, unused vacation leave will be paid to the employee.

The Utility also allows employees to accumulate up to a total of 60 working days of sick leave. If sick leave is not used during the year, a minimum of six days of unused sick leave must be carried forward. Employees may elect to take pay for unused sick leave in excess of the six days which must be carried forward to the maximum accumulation of 60 days. At such time as 60 days of sick leave have been accumulated, an employee may elect to take pay for all unused sick leave in a year. Pay shall be granted to an employee for unused sick leave upon separation from the Utility.

Long-Term Obligations - Long-term debt and other obligations are reported as utility liabilities. Bond premiums and discounts, as well as origination fee, are deferred and amortized over the life of the bonds.

Designated Net Assets - The Board of Trustees has designated certain funds to be placed in cash reserve funds. These cash reserve funds, which are from unrestricted net assets, are designated as emergency funds and shall only be expended for that purpose. The cash reserve funds are not to be used to pay for ongoing operating expenditures or capital improvements unless approved by the Board.

Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates. As of the date of issuance of the accompanying financial statements, no material changes to the estimates used therein were anticipated by management in the near term.

Budgets and Budgetary Accounting

In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget for Electric, Water, Sewer and Joint Treatment. The budget of the Utility is submitted following required public notice and hearing.

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Note 2 – Deposits and Investments

The Utility's deposits at June 30, 2010 were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the Utility or the Utility's agent in the Utility's name, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. The chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds not currently needed for operating expenses in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper, perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The Utilities' had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

Note 3 – Capital Assets

Capital asset activity for the year ended June 30, 2010 is as follows:

	Beginning Balance	Additions	Disposals	Ending Balance
Land	\$ 1,086,792	\$ 0	\$ 0	\$ 1,086,792
River Levee	<u>212,153</u>	<u>0</u>	<u>0</u>	<u>212,153</u>
Non-Depreciable Capital Assets	<u>1,298,945</u>	<u>0</u>	<u>0</u>	<u>1,298,945</u>
Plant	15,578,544	168,035	0	15,746,579
Distribution & Collection	19,095,475	1,127,112	0	20,222,587
Machinery & Equipment	804,441	37,900	0	842,341
General Buildings	2,132,268	0	0	2,132,268
Transportation Equipment	1,221,838	19,967	19,270	1,222,535
Joint Treatment Facility	<u>8,124,389</u>	<u>113,350</u>	<u>0</u>	<u>8,237,739</u>
Depreciable Capital Assets	46,956,955	1,466,364	19,270	48,404,049
Less Accumulated Depreciation	<u>23,090,291</u>	<u>1,328,885</u>	<u>19,270</u>	<u>24,399,906</u>
Depreciable Capital Assets-Net	<u>23,866,664</u>	<u>137,479</u>	<u>0</u>	<u>24,004,143</u>
Net Capital Assets	\$ <u>25,165,609</u>	\$ <u>137,479</u>	\$ <u>0</u>	\$ <u>25,303,088</u>

Depreciation charged to operations for the years ended June 30, 2010 and 2009 was \$1,328,885 and \$1,295,386 respectively.

Note 4 – Loan Origination Fee

The original cost of the loan origination fee for the Water Revenue Capital Loan – Series 2001 was \$48,080, which was incurred in March 2002 and is being amortized over the remaining life of the loan.

Note 5 – Long-Term Debt

Following is a summary of changes in the water utility long-term debt for the year ended June 30, 2010:

	Series 2001 Water Revenue Capital Loan Note	Series 2007 Water Revenue Refunding Capital Loan Notes	Series 2010 Water Revenue Capital Loan Note	Total Bonds Payable
Balance July 1, 2009	3,218,000	695,000	0	3,913,000
Issued	0	0	402,968	402,968
Redeemed	(227,000)	(220,000)	0	(447,000)
Balance June 30, 2010	2,991,000	475,000	402,968	3,868,968
Less: current portion	(233,000)	(230,000)	0	(463,000)
Long-term debt, net of current portion	<u>2,758,000</u>	<u>245,000</u>	<u>402,968</u>	<u>3,405,968</u>

Annual debt service requirements to maturity for water revenue notes are as follows:

Year Ending June 30	Series 2007		Series 2001			Series 2010		
	Principal	Interest	Principal	Interest	Service Fees	Principal	Interest	Fees
2011	\$ 230,000	18,410	233,000	89,730	7,478	0	6,923	1,075
2012	245,000	9,555	240,000	82,740	6,895	38,000	14,505	1,343
2013	-	-	248,000	75,540	6,295	48,000	14,970	1,247
2014	-	-	255,000	68,100	5,675	51,000	13,530	1,128
2015	-	-	263,000	60,450	5,038	52,000	12,000	1,000
2016	-	-	271,000	52,560	4,380	53,000	10,440	870
2017	-	-	279,000	44,430	3,703	56,000	8,850	738
2018	-	-	287,000	36,060	3,005	57,000	7,170	598
2019	-	-	296,000	27,450	2,287	21,968	5,460	455
2020	-	-	305,000	18,570	1,547	13,000	780	423
2021	-	-	314,000	9,420	785	13,000	390	33
	<u>\$ 475,000</u>	<u>27,965</u>	<u>2,991,000</u>	<u>565,050</u>	<u>47,088</u>	<u>402,968</u>	<u>95,018</u>	<u>8,910</u>

The debt service requirements for the Series 2010 Water Revenue Capital Loan Note are based on the total funds available to be disbursed as the project is in the construction phase. Total funds available under the Series 2010 Water Revenue Capital Loan Note are \$537,000. Of this amount \$107,000 is a forgivable loan pursuant to the American Recovery and Reinvestment Act of 2009 (ARRA). If the requirements of ARRA are not met the loan will not be forgiven and additional costs may apply.

The Utility has pledged future water utility revenue, net of specified operating expenses, to repay outstanding water revenue bonds. The bonds are payable solely from the water utility's net revenues. Revenue bond provisions include requirements to make sufficient monthly transfers to Water sinking fund accounts for the purpose of paying bond principal and interest when due. These requirements have been met.

During the fiscal year ended June 30, 2006, the electric utility had advanced funds to the joint treatment utility to expand the waste treatment facility. The loan bears an interest rate of 4.0% and is due in annual installments payable on January 1 of each year. Following is the summary of changes in the joint treatment utility long-term debt for the year ended June 30, 2010.

Long-term liability activity for the fiscal year ended June 30, 2010:

	<u>Notes Payable</u>
Balance July 1, 2009	\$ 875,000
Redeemed	<u>(125,000)</u>
Balance June 30, 2010	750,000
Less: current portion	<u>(125,000)</u>
Long-term debt, net of current portion	<u>\$ 625,000</u>

Annual debt service requirements to maturity for the inter-fund loan are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>
2011	125,000	30,000
2012	125,000	25,000
2013	125,000	20,000
2014	125,000	15,000
2015	125,000	10,000
2016	<u>125,000</u>	<u>5,000</u>
	<u>\$ 750,000</u>	<u>105,000</u>

Note 6 – Pension and Retirement Benefits

The Utility contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, PO Box 9117, Des Moines, IA 50306-9117.

Plan members are required to contribute 4.30% of their annual covered salary and the Utilities is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contributions to IPERS for the years ended June 30, 2010 and 2009 were \$95,436 and \$87,631 respectively, equal to the required contributions for the year.

The Utility sponsors a deferred compensation plan under Internal Revenue Code Section 457. The plan permits employees to defer a portion of their salary to future years. All full-time employees who have completed six months of continuous employment and are 18 years of age are eligible to participate. The Utility will contribute up to \$50 per month for all employees contributing at least \$50 per month of their salary. The Utilities' contribution for the year ended June 30, 2010 and 2009 was \$14,000 and \$13,175 respectively.

Note 7 – Post-employment Benefits (OPEB)

Plan Description - In addition to the pension benefits described in Note 6, the Utilities provide health insurance coverage for long-term employees after retirement. The health insurance coverage provided is through the Utility's group health insurance plan, which covers both active and retired members. The benefits are 100% of premium costs for employees retiring with thirty years of employment, 75% for employees with twenty-five years of employment and 50% for employees with twenty years of employment. Benefits terminate once a retired employee qualifies for Medicare. Benefit provisions are established by the Utility Board of Trustees.

Funding Policy – The Utility currently finances the retiree benefit plan on a pay-as-you-go basis. The Utility incurred \$11,401 for retiree health premiums and \$4,600 of self-funding costs during the current fiscal year as a result of this program.

Annual OPEB Cost and Net OPEB Obligation - The Utility's annual OPEB cost is calculated based on the annual required contribution (ARC) of the Utility. The Utility has elected to calculate the ARC and related information using the alternative measurement method permitted by GASB Statement 45 for employers in plans with fewer than one hundred total plan members. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years.

The following table shows the components of the Utility's annual OPEB cost for the year ended June 30, 2010, the amount actually contributed to the plan and changes in the Utility's net OPEB obligation:

Annual required contribution	\$ 16,521
Interest on net OPEB obligation	0
Adjustment to annual required contribution	<u>0</u>
Annual OPEB cost	16,521
Contributions made	<u>(11,401)</u>
Increase in net OPEB obligation	5,120
Net OPEB obligation beginning of year	<u>6,804</u>
Net OPEB obligation end of year	<u>\$ 11,924</u>

The Utility's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan and the net OPEB obligation as of June 30, 2010 are summarized as follows:

<u>Year Ended</u>	<u>Annual OPEB Cost</u>	<u>Percentage of Annual OPEB Cost Contributed</u>	<u>Net OPEB Obligation</u>
6/30/10	\$ 16,521	69.0%	\$ 11,924

Funded Status and Funding Progress - As of June 30, 2010, the actuarial accrued liability for benefits was \$145,817, all of which was unfunded. The covered payroll (annual payroll of active employees covered by the plan) was \$1,491,370, and the ratio of the unfunded actuarial accrued liability to the covered payroll was 9.8%. As of June 30, 2010 there were no trust fund assets.

Methods and Assumptions - The projection of future benefit payments for an ongoing plan involves estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and plan members and include the type of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The methods and assumptions used include techniques that are designed to reduce the effects

of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

Note 8 – Construction and Other Commitments

The Utility has entered into a construction contract totaling \$293,827 to extend the sanitary sewer main on Chamberlin Street and Airport Road in partnership with the Iowa Department of Transportation. Denison Municipal Utilities will retain ownership of the sanitary sewer main and will contract and manage the project. The Iowa Department of Transportation will reimburse Denison Municipal Utilities for its share of the cost of the project including engineering fees. At June 30, 2010, \$0 had been paid under the construction contract.

On September 15, 2009, project participation was approved with FEMA to convert a portion of the electric distribution system from overhead to underground. The estimated cost of the project is \$196,210 with the Denison Municipal Utilities match amount of 15% or \$29,432 through cash or in-kind labor and equipment. As of June 30, 2010, \$44,892 had been expended on the project and \$6,410 had been received from FEMA.

Denison Municipal Utilities has undertaken a project to replace all residential and commercial water meters with new meters that will be read through a radio transmission signal. On December 15, 2009 a contract was awarded for the purchase of the new meters. As of June 30, 2010, the water meters had been received and recorded in inventory. The cost of the meters, along with the related payroll costs, will be capitalized as the meters are installed in the system. The project is being funded through the proceeds from the Series 2010 Water Revenue Capital Loan Note discussed in Note 5.

On September 12, 1997, the Utility entered into a contract, for a period of 40 years, for the sale of an undivided interest in Capacity of Water Supply, Treatment Works and Transmission Facilities with West Central Iowa Rural Water Association (WCIRW). In April of 1999, WCIRW and DMU entered into an amended contract (first amendment) that arrives at the respective capital contribution of Water Production Capital expenditures. The amendment contemplates WCIRW paying for 1.5 MGD maximum plant capacity. In accordance with the contract, WCIRW has contributed capital in the amount of \$2,649,179 for its share of the capacity of the plant required by WCIRW. WCIRW has agreed to purchase water from Denison Municipal Utilities at Denison Municipal Utilities' cost of production.

Denison Municipal Utilities shall retain ownership of its line, appurtenances, altitude valves, other valves and meters up to and including the meter within the present corporate limits of the City of Denison. Denison Municipal Utilities may purchase portions of WCIRW's system if the city limits of Denison is expanded.

The cost of the Water Treatment and Raw Water Main Improvements has been capitalized and is reflected in the balance sheet of the Water Utility. An entry has been made to Contributed Capital for the Water Utility for the contribution from WCIRW for their share of the improvements.

Note 9 – Economic Development Costs – City of Denison

On March 11, 2003 a resolution was passed establishing a funds transfer program from electric revenues to support economic development in the City of Denison. This resolution established a transfer of 6% of the five year weighted average of gross electric revenues minus the cost of utilities used by the City. The amounts transferred to the Denison Foundation for economic development for the years ended June 30, 2010 and 2009 were \$160,333 and \$67,480, respectively.

On August 17, 2010 the Board of Trustees voted to rescind the resolution establishing the funds transfer program from electric revenues but to continue to provide the City of Denison with free utilities and to continue to calculate and charge the City for new street lights, street light maintenance and other miscellaneous charges. Discussion continues regarding the calculation of a funds transfer program to support economic development in the City of Denison.

Note 10 – Risk Management

The Utility is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance coverage. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

Note 11 – Subsequent Events

Management has evaluated subsequent events through September 16, 2010, the date on which the financial statements were available to be issued.

Required Supplementary Information

DENISON MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE
REQUIRED SUPPLEMENTARY INFORMATION
JUNE 30, 2010

	Per Financial Statements	Accrual Adjustments	Budget Adjustments	Cash Basis	Budget	Variance Favorable (Unfavorable)
Revenue/Receipts						
Charges for services	\$ 12,826,151	(93,629)	0	12,732,522	13,101,800	(369,278)
Interest income	200,804	43,911	0	244,715	220,500	24,215
Miscellaneous	225,812	0	125,000	350,812	955,400	(604,588)
Total Revenue/Receipts	13,252,767	(49,718)	125,000	13,328,049	14,277,700	(949,651)
Expenses/Expenditures						
Operating expenses	10,810,434	204,744	0	11,015,178	11,376,600	361,422
Interest expense & economic development costs	316,569	3,549	0	320,118	274,600	(45,518)
Debt payments	0	0	572,000	572,000	572,000	0
Depreciation & capital expenditures	1,328,885	0	137,480	1,466,365	4,753,500	3,287,135
Total Expenses/Expenditures	12,455,888	208,293	709,480	13,373,661	16,976,700	3,603,039
Net	796,879	(258,011)	(584,480)	(45,612)	(2,699,000)	2,653,388
Beginning Net Assets	32,824,491	(19,827,225)	(590,928)	12,406,338		
Ending Net Assets	\$ 33,621,370	(20,085,236)	(1,175,408)	12,360,726		

This budgetary comparison is presented as Required Supplementary Information in accordance with Government Auditing Standards. In accordance with the Code of Iowa, the Board of Trustees annually adopts a budget following required public notice and hearing for all funds except Agency Funds. Although the budget document presents functional disbursements by fund, the legal level of control is at the aggregated functional level, not at the fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures. There were no amendments during the course of the fiscal year, nor was the budget exceeded.

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
REQUIRED SUPPLEMENTARY INFORMATION

Year Ended June 30,	Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((b-a)/c)
2009	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,436,882	10.1%
2010	June 30, 2009	\$ 0	\$ 145,817	\$ 145,817	0.00%	\$1,491,370	9.8%

See Note 7 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost and Net OPEB Obligation, funded status and funding progress.

See accompanying independent auditor's report.

Supplementary Information

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010 and 2009**

Schedule 1

	<u>2010</u>	<u>2009</u>
ASSETS		
ELECTRIC UTILITY PLANT		
Plant in Service	\$ 18,729,766	\$ 18,023,839
Less: Accumulated depreciation	10,388,512	9,895,555
Net Electric Utility Plant	<u>\$ 8,341,254</u>	<u>\$ 8,128,284</u>
OTHER ASSETS		
Note Receivable-Joint Treatment Fund	\$ 750,000	\$ 875,000
CURRENT ASSETS		
Restricted		
Consumers' deposit fund	\$ 75,906	\$ 77,016
Unrestricted		
Cash	850,515	549,903
Deposits and investments	3,454,386	4,248,167
Accounts receivable	481,647	476,164
Unbilled usage	492,053	423,165
Due from other funds	4,807	22,879
Interest receivable	21,883	39,413
Inventory	471,684	399,559
Prepaid insurance	43,884	41,417
Total Current Assets	<u>\$ 5,896,765</u>	<u>\$ 6,277,683</u>
 Total Assets	 <u><u>\$ 14,988,019</u></u>	 <u><u>\$ 15,280,967</u></u>
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 8,341,254	\$ 8,128,284
Restricted net assets	1,706	14,366
Unrestricted net assets	5,536,808	5,776,958
Total Net Assets	<u>\$ 13,879,768</u>	<u>\$ 13,919,608</u>
CURRENT LIABILITIES		
Accounts payable	\$ 838,048	\$ 1,086,229
Due to other funds	17,774	32,267
Accrued vacation and sick leave	159,817	159,304
Other accrued liabilities	18,412	20,909
Payable from restricted assets		
Consumers' deposits	74,200	62,650
Total Current Liabilities	<u>\$ 1,108,251</u>	<u>\$ 1,361,359</u>
 Total Liabilities and Net Assets	 <u><u>\$ 14,988,019</u></u>	 <u><u>\$ 15,280,967</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NETS ASSETS
Years Ended June 30, 2010 and 2009**

Schedule 1

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Sales to consumers	\$ 8,263,170	\$ 7,784,086
Other operating revenues	32,503	47,596
Total operating revenues	<u>\$ 8,295,673</u>	<u>\$ 7,831,682</u>
 OPERATING EXPENSES		
Cost of Power	\$ 6,720,499	\$ 6,217,535
Maintenance	84,841	87,167
Distribution expense	395,345	418,384
Consumer accounting & collection	107,485	91,540
Administrative & general	421,099	464,904
Insurance	205,083	184,247
Transportation	32,999	35,418
Total operating expense excluding depreciation	<u>\$ 7,967,351</u>	<u>\$ 7,499,195</u>
 OPERATING INCOME BEFORE DEPRECIATION	\$ 328,322	\$ 332,487
 DEPRECIATION	<u>492,957</u>	<u>462,365</u>
 OPERATING INCOME	<u>\$ (164,635)</u>	<u>\$ (129,878)</u>
 NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 178,523	\$ 167,644
Hazard Mitigation Grant	6,410	0
Interest income	100,195	167,297
Economic development costs	(160,333)	(67,480)
Total nonoperating revenues (expenses)	<u>\$ 124,795</u>	<u>\$ 267,461</u>
 NET INCOME (LOSS)	\$ (39,840)	\$ 137,583
 NET ASSETS, BEGINNING OF YEAR	<u>13,919,608</u>	<u>13,782,025</u>
 NET ASSETS, END OF YEAR	<u><u>\$ 13,879,768</u></u>	<u><u>\$ 13,919,608</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2010 and 2009**

Schedule 1

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ (39,840)	\$ 137,583
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	492,957	462,365
Changes in assets and liabilities		
(Increase) decrease in consumers' deposit fund	1,110	(15,203)
(Increase) decrease in trade receivables	(5,483)	15,517
(Increase) decrease in unbilled usage	(68,888)	(40,657)
(Increase) decrease in inventories	(72,125)	(12,547)
(Increase) decrease in prepaid expenses	(2,467)	(4,959)
(Increase) decrease in other current assets	35,602	(13,724)
Increase (decrease) in accounts payable and accrued liabilities	(264,658)	545,243
Increase (decrease) in customer deposits	11,550	6,961
Net cash provided by (used in) operating activities	\$ <u>87,758</u>	\$ <u>1,080,579</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 5,818,779	\$ 3,462,560
Purchase of investment securities	(5,024,998)	(3,896,977)
Interfund loan to Joint Treatment	125,000	125,000
Purchase of property and equipment	(705,927)	(1,066,632)
Net cash provided by (used in) investing activities	\$ <u>212,854</u>	\$ <u>(1,376,049)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ <u>0</u>	\$ <u>0</u>
Net cash provided by (used in) financing activities	\$ <u>0</u>	\$ <u>0</u>
Net increase (decrease) in cash and cash equivalents	\$ 300,612	\$ (295,470)
Cash and cash equivalents:		
Beginning	549,903	845,373
Ending	\$ <u><u>850,515</u></u>	\$ <u><u>549,903</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL ELECTRIC UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Year Ended June 30, 2010**

Schedule 2

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 8,263,170	8,574,800	(311,630)
Other operating revenues	32,503	30,000	2,503
Total operating revenues	<u>\$ 8,295,673</u>	<u>8,604,800</u>	<u>(309,127)</u>
OPERATING EXPENSES			
Cost of Power	\$ 6,720,499	7,300,000	579,501
Maintenance	84,841	96,000	11,159
Distribution expense	395,345	450,000	54,655
Consumer accounting & collection	107,485	92,500	(14,985)
Administrative & general	421,099	416,100	(4,999)
Insurance	205,083	189,500	(15,583)
Transportation	32,999	40,000	7,001
Total operating expense excluding depreciation	<u>\$ 7,967,351</u>	<u>8,584,100</u>	<u>616,749</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 328,322	20,700	307,622
DEPRECIATION	<u>492,957</u>	<u>465,000</u>	<u>(27,957)</u>
OPERATING INCOME	<u>\$ (164,635)</u>	<u>(444,300)</u>	<u>279,665</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 178,523	476,000	(297,477)
Hazard Mitigation Grant	6,410	300,000	(293,590)
Interest income	100,195	100,000	195
Economic development costs	(160,333)	(120,000)	(40,333)
Total nonoperating revenues (expenses)	<u>\$ 124,795</u>	<u>756,000</u>	<u>(631,205)</u>
NET INCOME (LOSS)	\$ (39,840)	311,700	<u>(351,540)</u>
NET ASSETS, BEGINNING OF YEAR	<u>13,919,608</u>	<u>10,414,830</u>	
NET ASSETS, END OF YEAR	<u>\$ 13,879,768</u>	<u>10,726,530</u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010 and 2009**

Schedule 3

	<u>2010</u>	<u>2009</u>
ASSETS		
WATER UTILITY PLANT		
Plant in Service	\$ 17,572,170	\$ 17,264,125
Less: Accumulated depreciation	8,137,241	7,575,704
Net Water Utility Plant	<u>\$ 9,434,929</u>	<u>\$ 9,688,421</u>
OTHER ASSETS		
Revenue bond reserve-restricted	\$ 1,189,369	\$ 1,156,075
Loan origination fee	27,357	29,844
Total Other Assets	<u>\$ 1,216,726</u>	<u>\$ 1,185,919</u>
CURRENT ASSETS		
Unrestricted		
Cash	\$ 552,495	\$ 84,887
Deposits and investments	2,760,039	3,090,241
Accounts receivable	189,378	168,803
Unbilled usage	112,483	122,071
Due from other funds	7,967	12,581
Interest receivable	3,834	27,111
Inventory	384,542	81,507
Prepaid insurance	38,568	36,756
Total Current Assets	<u>\$ 4,049,306</u>	<u>\$ 3,623,957</u>
 Total Assets	 <u><u>\$ 14,700,961</u></u>	 <u><u>\$ 14,498,297</u></u>
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 5,593,318	\$ 5,805,265
Restricted nets assets	1,169,866	1,135,523
Unrestricted net assets	3,889,649	3,462,540
Total Net Assets	<u>\$ 10,652,833</u>	<u>\$ 10,403,328</u>
 LONG-TERM DEBT - Net of current maturities	 <u>\$ 3,405,968</u>	 <u>\$ 3,466,000</u>
CURRENT LIABILITIES		
Accounts payable	\$ 61,540	\$ 37,173
Due to other funds	3,650	9,852
Accrued vacation and sick leave	82,285	98,166
Other accrued liabilities	12,182	16,226
Payable from restricted assets		
Current maturities of long-term debt	463,000	447,000
Interest payable	19,503	20,552
Total Current Liabilities	<u>\$ 642,160</u>	<u>\$ 628,969</u>
 Total Liabilities and Net Assets	 <u><u>\$ 14,700,961</u></u>	 <u><u>\$ 14,498,297</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

Schedule 3

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>2,211,864</u>	\$ <u>2,222,321</u>
OPERATING EXPENSES		
Power & pumping	\$ 209,706	\$ 173,749
Distribution expense	205,379	241,515
Purification	489,341	476,459
Consumer accounting & collection	85,436	69,182
Administrative & general	217,658	202,670
Insurance	152,794	130,903
Transportation	10,839	10,105
Total operating expense excluding depreciation	\$ <u>1,371,153</u>	\$ <u>1,304,583</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 840,711	\$ 917,738
DEPRECIATION	<u>561,538</u>	<u>557,748</u>
OPERATING INCOME	\$ <u>279,173</u>	\$ <u>359,990</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 19,786	\$ 28,335
Interest income	74,282	149,384
Interest expense	(123,736)	(135,373)
Total nonoperating revenues (expenses)	\$ <u>(29,668)</u>	\$ <u>42,346</u>
NET INCOME (LOSS)	\$ 249,505	\$ 402,336
NET ASSETS, BEGINNING OF YEAR	<u>10,403,328</u>	<u>10,000,992</u>
NET ASSETS, END OF YEAR	\$ <u><u>10,652,833</u></u>	\$ <u><u>10,403,328</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2010 and 2009**

Schedule 3

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 249,505	\$ 402,336
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	561,538	557,748
Amortization of origination fees	2,487	2,487
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(20,575)	300
(Increase) decrease in unbilled usage	9,588	(6,675)
(Increase) decrease in inventories	(303,035)	(15,962)
(Increase) decrease in prepaid expenses	(1,812)	(4,827)
(Increase) decrease in other current assets	27,891	8,540
Increase (decrease) in accounts payable and accrued liabilities	<u>(2,810)</u>	<u>11,271</u>
Net cash provided by (used in) operating activities	\$ <u>522,777</u>	\$ <u>955,218</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 4,390,666	\$ 3,908,211
Purchase of investment securities	(4,093,758)	(3,969,873)
Purchase of property and equipment	<u>(308,045)</u>	<u>(415,095)</u>
Net cash provided by (used in) investing activities	\$ <u>(11,137)</u>	\$ <u>(476,757)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from long-term borrowing	\$ 402,968	\$ 0
Principal payments on long-term borrowing	<u>(447,000)</u>	<u>(430,000)</u>
Net cash provided by (used in) financing activities	\$ <u>(44,032)</u>	\$ <u>(430,000)</u>
 Net increase (decrease) in cash and cash equivalents	 \$ 467,608	 \$ 48,461
 Cash and cash equivalents:		
Beginning	84,887	36,426
Ending	\$ <u><u>552,495</u></u>	\$ <u><u>84,887</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL WATER UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Year Ended June 30, 2010

Schedule 4

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 2,211,864	2,358,000	<u>(146,136)</u>
OPERATING EXPENSES			
Power & pumping	\$ 209,706	174,500	(35,206)
Distribution expense	205,379	208,500	3,121
Purification	489,341	496,500	7,159
Consumer accounting & collection	85,436	70,000	(15,436)
Administrative & general	217,658	217,200	(458)
Insurance	152,794	131,000	(21,794)
Transportation	<u>10,839</u>	<u>13,000</u>	<u>2,161</u>
Total operating expense excluding depreciation	\$ <u>1,371,153</u>	<u>1,310,700</u>	<u>(60,453)</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 840,711	1,047,300	(206,589)
DEPRECIATION	<u>561,538</u>	<u>555,500</u>	<u>(6,038)</u>
OPERATING INCOME	\$ <u>279,173</u>	<u>491,800</u>	<u>(212,627)</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 19,786	20,000	(214)
Interest income	74,282	100,000	(25,718)
Interest expense	<u>(123,736)</u>	<u>(122,100)</u>	<u>(1,636)</u>
Total nonoperating revenues (expenses)	\$ <u>(29,668)</u>	<u>(2,100)</u>	<u>(27,568)</u>
NET INCOME (LOSS)	\$ 249,505	489,700	<u><u>(240,195)</u></u>
NET ASSETS, BEGINNING OF YEAR	<u>10,403,328</u>	<u>7,357,326</u>	
NET ASSETS, END OF YEAR	\$ <u><u>10,652,833</u></u>	<u><u>7,847,026</u></u>	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010 and 2009**

Schedule 5

ASSETS	<u>2010</u>	<u>2009</u>
SEWER UTILITY PLANT		
Plant in Service	\$ 4,717,408	\$ 4,397,636
Less: Accumulated depreciation	2,724,230	2,649,691
Net Sewer Utility Plant	<u>\$ 1,993,178</u>	<u>\$ 1,747,945</u>
CURRENT ASSETS		
Unrestricted		
Cash	165,718	127,777
Deposits and investments	1,013,875	991,637
Accounts receivable	120,764	128,973
Unbilled usage	74,211	75,849
Due from other funds	11,737	27,593
Interest receivable	3,314	6,418
Prepaid insurance	9,995	9,502
Total Current Assets	<u>\$ 1,399,614</u>	<u>\$ 1,367,749</u>
 Total Assets	 <u><u>\$ 3,392,792</u></u>	 <u><u>\$ 3,115,694</u></u>
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 1,993,178	\$ 1,747,945
Restricted net assets	0	0
Unrestricted net assets	1,288,156	1,274,414
Total Net Assets	<u>\$ 3,281,334</u>	<u>\$ 3,022,359</u>
CURRENT LIABILITIES		
Accounts payable	\$ 42,220	\$ 9,486
Due to other funds	2,693	20,782
Accrued vacation and sick leave	61,359	57,929
Other accrued liabilities	5,186	5,138
Total Current Liabilities	<u>\$ 111,458</u>	<u>\$ 93,335</u>
 Total Liabilities and Net Assets	 <u><u>\$ 3,392,792</u></u>	 <u><u>\$ 3,115,694</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

Schedule 5

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>1,051,855</u>	\$ <u>1,095,035</u>
OPERATING EXPENSES		
Plant & main maintenance	\$ 227,978	\$ 248,676
Joint treatment costs	269,566	285,809
Consumer accounting & collection	59,096	49,762
Administrative & general	104,483	95,345
Insurance	52,530	44,922
Transportation	9,644	10,751
Total operating expense excluding depreciation	\$ <u>723,297</u>	\$ <u>735,265</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 328,558	\$ 359,770
DEPRECIATION	<u>93,808</u>	<u>99,961</u>
OPERATING INCOME	\$ <u>234,750</u>	\$ <u>259,809</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 3,460	\$ 11,476
Interest income	20,765	21,315
Total nonoperating revenues (expenses)	\$ <u>24,225</u>	\$ <u>32,791</u>
NET INCOME (LOSS)	\$ 258,975	\$ 292,600
NET ASSETS, BEGINNING OF YEAR	<u>3,022,359</u>	<u>2,729,759</u>
NET ASSETS, END OF YEAR	\$ <u><u>3,281,334</u></u>	\$ <u><u>3,022,359</u></u>

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2010 and 2009**

Schedule 5

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 258,975	\$ 292,600
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	93,808	99,961
Changes in assets and liabilities		
(Increase) decrease in trade receivables	8,209	82,254
(Increase) decrease in unbilled usage	1,638	(3,103)
(Increase) decrease in prepaid expenses	(493)	(1,225)
(Increase) decrease in other current assets	18,960	(28,116)
Increase (decrease) in accounts payable and accrued liabilities	18,124	1,993
Net cash provided by (used in) operating activities	\$ <u>399,221</u>	\$ <u>444,364</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 838,359	\$ 589,590
Purchase of investment securities	(860,597)	(982,841)
Purchase of property and equipment	(339,042)	(89,843)
Net cash provided by (used in) investing activities	\$ <u>(361,280)</u>	\$ <u>(483,094)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
None	\$ <u>0</u>	\$ <u>0</u>
Net cash provided by (used in) financing activities	\$ <u>0</u>	\$ <u>0</u>
Net increase (decrease) in cash and cash equivalents	\$ 37,941	\$ (38,730)
Cash and cash equivalents:		
Beginning	127,777	166,507
Ending	\$ <u><u>165,718</u></u>	\$ <u><u>127,777</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
MUNICIPAL SEWER UTILITIES
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Year Ended June 30, 2010

Schedule 6

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ 1,051,855	1,024,000	27,855
OPERATING EXPENSES			
Plant & main maintenance	\$ 227,978	247,500	19,522
Joint treatment costs	269,566	287,500	17,934
Consumer accounting & collection	59,096	48,000	(11,096)
Administrative & general	104,483	102,300	(2,183)
Insurance	52,530	50,000	(2,530)
Transportation	9,644	10,000	356
Total operating expense excluding depreciation	\$ 723,297	745,300	22,003
OPERATING INCOME BEFORE DEPRECIATION	\$ 328,558	278,700	49,858
DEPRECIATION	93,808	105,000	11,192
OPERATING INCOME	\$ 234,750	173,700	61,050
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 3,460	5,000	(1,540)
Interest income	20,765	12,500	8,265
Total nonoperating revenues (expenses)	\$ 24,225	17,500	6,725
NET INCOME (LOSS)	\$ 258,975	191,200	67,775
NET ASSETS, BEGINNING OF YEAR	3,022,359	2,102,400	
NET ASSETS, END OF YEAR	\$ 3,281,334	2,293,600	

See accompanying independent auditor's report.

**DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENT OF NET ASSETS
June 30, 2010 and 2009**

Schedule 7

	<u>2010</u>	<u>2009</u>
ASSETS		
JOINT TREATMENT PLANT		
Plant in Service	\$ 8,683,650	\$ 8,570,300
Less: Accumulated depreciation	3,149,923	2,969,341
Net Joint Treatment Plant	<u>\$ 5,533,727</u>	<u>\$ 5,600,959</u>
OTHER ASSETS		
Unrestricted		
Equipment replacement investment	\$ 697,787	\$ 543,856
CURRENT ASSETS		
Unrestricted		
Cash	\$ 224,168	\$ 149,038
Accounts receivable	115,149	97,031
Due from other funds	715	846
Interest receivable	0	0
Prepaid insurance	17,631	16,801
Total Current Assets	<u>\$ 357,663</u>	<u>\$ 263,716</u>
 Total Assets	 <u><u>\$ 6,589,177</u></u>	 <u><u>\$ 6,408,531</u></u>
 LIABILITIES AND NET ASSETS		
NET ASSETS		
Invested in Capital Assets, net of related debt	\$ 4,783,727	\$ 4,725,959
Restricted net assets	0	0
Unrestricted net assets	1,023,708	753,237
Total Net Assets	<u>\$ 5,807,435</u>	<u>\$ 5,479,196</u>
 LONG-TERM DEBT - Net of current maturities	 <u>\$ 625,000</u>	 <u>\$ 750,000</u>
CURRENT LIABILITIES		
Accounts payable	\$ 13,459	\$ 32,725
Due to other funds	1,109	998
Other accrued liabilities	2,174	3,112
Current maturities of long-term debt	125,000	125,000
Interest payable	15,000	17,500
Total Current Liabilities	<u>\$ 156,742</u>	<u>\$ 179,335</u>
 Total Liabilities and Net Assets	 <u><u>\$ 6,589,177</u></u>	 <u><u>\$ 6,408,531</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS
Years Ended June 30, 2010 and 2009

Schedule 7

	<u>2010</u>	<u>2009</u>
OPERATING REVENUES		
Sales to consumers	\$ <u>1,266,759</u>	\$ <u>1,173,710</u>
OPERATING EXPENSES		
Waste water processing expense	\$ 516,501	\$ 556,262
Administrative & general	156,379	143,289
Insurance	64,833	63,742
Transportation	10,920	13,884
Total operating expense excluding depreciation	\$ <u>748,633</u>	\$ <u>777,177</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 518,126	\$ 396,533
DEPRECIATION	<u>180,582</u>	<u>175,312</u>
OPERATING INCOME	\$ <u>337,544</u>	\$ <u>221,221</u>
NONOPERATING REVENUES (EXPENSES)		
Miscellaneous	\$ 17,633	\$ 32,242
Interest income	5,562	6,737
Interest expense	(32,500)	(37,500)
Total nonoperating revenues (expenses)	\$ <u>(9,305)</u>	\$ <u>1,479</u>
NET INCOME (LOSS)	\$ 328,239	\$ 222,700
NET ASSETS, BEGINNING OF YEAR	<u>5,479,196</u>	<u>5,256,496</u>
NET ASSETS, END OF YEAR	<u><u>5,807,435</u></u>	<u><u>5,479,196</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
COMPARATIVE STATEMENT OF CASH FLOWS
Years Ended June 30, 2010 and 2009

Schedule 7

	<u>2010</u>	<u>2009</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Net income (loss)	\$ 328,239	\$ 222,700
Adjustments to reconcile net income to net cash provided by (used in) operating activities:		
Depreciation	180,582	175,312
Changes in assets and liabilities		
(Increase) decrease in trade receivables	(18,118)	15,447
(Increase) decrease in prepaid expenses	(830)	(2,183)
(Increase) decrease in other current assets	131	(229)
Increase (decrease) in accounts payable and accrued liabilities	<u>(22,593)</u>	<u>19,574</u>
Net cash provided by (used in) operating activities	\$ <u>467,411</u>	\$ <u>430,621</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale/maturities of securities	\$ 0	\$ 0
Purchase of investment securities	(153,931)	(230,173)
Purchase of property and equipment	<u>(113,350)</u>	<u>(10,362)</u>
Net cash provided by (used in) investing activities	\$ <u>(267,281)</u>	\$ <u>(240,535)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from interfund loan	\$ 0	\$ 0
Principal payments on long-term borrowing	<u>(125,000)</u>	<u>(125,000)</u>
Net cash provided by (used in) financing activities	\$ <u>(125,000)</u>	\$ <u>(125,000)</u>
 Net increase (decrease) in cash and cash equivalents	 \$ 75,130	 \$ 65,086
 Cash and cash equivalents:		
Beginning	149,038	83,952
Ending	\$ <u><u>224,168</u></u>	\$ <u><u>149,038</u></u>

See accompanying independent auditor's report.

DENISON MUNICIPAL UTILITIES
JOINT TREATMENT FUND
STATEMENT OF REVENUES, EXPENSES AND
CHANGES IN NET ASSETS-ACTUAL TO BUDGET
Year Ended June 30, 2010

Schedule 8

	<u>Actual</u>	<u>Budget</u>	<u>Variance</u>
OPERATING REVENUES			
Sales to consumers	\$ <u>1,266,759</u>	<u>1,115,000</u>	<u>151,759</u>
OPERATING EXPENSES			
Waste water processing expense	\$ 516,501	514,500	(2,001)
Administrative & general	156,379	144,000	(12,379)
Insurance	64,833	67,000	2,167
Transportation	<u>10,920</u>	<u>11,000</u>	<u>80</u>
Total operating expense excluding depreciation	\$ <u>748,633</u>	<u>736,500</u>	<u>(12,133)</u>
OPERATING INCOME BEFORE DEPRECIATION	\$ 518,126	378,500	139,626
DEPRECIATION	<u>180,582</u>	<u>175,500</u>	<u>(5,082)</u>
OPERATING INCOME	\$ <u>337,544</u>	<u>203,000</u>	<u>134,544</u>
NONOPERATING REVENUES (EXPENSES)			
Miscellaneous	\$ 17,633	15,000	2,633
Interest income	5,562	8,000	(2,438)
Interest expense	<u>(32,500)</u>	<u>(32,500)</u>	<u>-</u>
Total nonoperating revenues (expenses)	\$ <u>(9,305)</u>	<u>(9,500)</u>	<u>195</u>
NET INCOME (LOSS)	\$ 328,239	193,500	<u><u>134,739</u></u>
NET ASSETS, BEGINNING OF YEAR	<u>5,479,196</u>	<u>(134,000)</u>	
NET ASSETS, END OF YEAR	\$ <u><u>5,807,435</u></u>	<u><u>59,500</u></u>	

See accompanying independent auditor's report.

MAHONEY & GOTTO COMPANY

Certified Public Accountants

**201 South 7th Street
Denison, IA 51442**

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**Independent Auditor's Report on Internal Control over Financial Reporting
and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance
with Government Auditing Standards**

To the Board of Trustees of the
Denison Municipal Utilities:

We have audited the accompanying financial statements of the Denison Municipal Utilities, a component unit of the City of Denison, as of and for the year ended June 30, 2010, which collectively comprise the Utility's basic financial statements listed in the table of contents and have issued our report thereon dated September 16, 2010. We conducted our audit in accordance with generally accepted auditing standards in the United States and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Denison Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Denison Municipal Utilities' internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements and correct on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control such that there is a reasonable possibility a material misstatement of Denison Municipal Utilities' financial statements will not be prevented or detected and corrected on a timely basis. We did not find any deficiencies in internal control to be a material weakness.

A significant deficiency is a deficiency or a combination of deficiencies in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged by governance. We did not find any deficiencies in internal control to be a significant deficiency.
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Utility's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our test disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the Denison Municipal Utilities' operations for the year ended June 30, 2010 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Denison Municipal Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

Denison Municipal Utilities' responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Utility's responses, we did not audit Denison Municipal Utilities' responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials and employees of the Denison Municipal Utilities and other parties to whom Denison Municipal Utilities may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Denison Municipal Utilities during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.


MAHONEY & GOTTO COMPANY
Certified Public Accountants

September 16, 2010
Denison, Iowa

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-10 Segregation of Duties – One important aspect of the internal control structure is the segregation of duties among employees to prevent an individual from handling duties which are incompatible. The placing of orders, receiving of shipments, and approving vouchers for payment should all have adequate separation.

Recommendation – We realize that with staffing limitations, segregation of duties is difficult. It is recognized that the Utility has made reasonable efforts to segregate these duties. However, the Utility should review its control procedures to obtain the maximum internal controls possible under the circumstances. In addition, supervisory review of financial transactions and reports also remains extremely important when incompatible responsibilities cannot be segregated.

Response – We are aware of the need to segregate incompatible duties. We will continue to update and follow control procedures as they have been established including control procedures relating to cross-training.

Conclusion – Response accepted.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

DENISON MUNICIPAL UTILITIES
Schedule of Findings
Year Ended June 30, 2010

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget - Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation. Disbursements did not exceed the certified budget during the fiscal year.
- II-B-10 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.
- II-C-10 Travel Expense - No disbursements of Utility money for travel expenses of spouses of Utility officials or employees were noted.
- II-D-10 Business Transactions - Business transactions between the Utility and officials are immaterial and meet the guidelines of the Code of Iowa.
- II-E-10 Bond Coverage - Surety bond coverage of the Utility's officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- II-F-10 Board Minutes – No transactions were found that we believe should have been approved in the Board minutes but were not. Minutes of the Utility proceedings were all properly and timely published. Also, the Utility did publish annual gross salaries for 2009 as in accordance with an Attorney General's opinion dated April 12, 1978.
- II-G-10 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and Utility's investment policy were noted.
- II-H-10 Revenue Bonds - The Utility has complied with all aspects of its bond covenants.